

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 2001

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not considered to be material weakness?

_____ yes X none reported

Non-compliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not considered to be material weakness?

_____ yes X no

Type of auditor's report issued on compliance for major programs:

Qualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

X yes _____ no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

14.218

Community Development Block Grant

16.592

Local Law Enforcement Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low risk auditee?

_____ yes X no

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

01-1. Compensated Absences

The City has an accrued vacation and sick leave liability in excess of \$6,000,000 at September 30, 2001. This liability will continue to increase on an annual basis as employees accrue more vacation and sick time than they use. Although this liability will never be paid out at one time, the City needs to consider future funding sources for this liability. This comment was also reported last year.

Recommendation

The City should consider sources of funding for this liability. One option may be to establish reserves and build-up this reserve through designated funding sources.

Management Response

The City will continue to budget and appropriate funds for its current liability for accrued vacation and sick leave. The City has selected an actuarial firm and is in the process of compiling data for a valuation to determine the level of the City's annual funding and if necessary establish reserves to meet future funding needs.

01-2. Fixed Assets Accounting

The City's recording of fixed assets is not prepared in a timely manner. Due to inefficiencies in the City's software, there was a lengthy reconciliation process required by the City in order for them to create the required journal entries for fixed asset additions and deletions (i.e., fiscal year 2001 entries not completed until 2002). Some of these delays resulted from a lack of full integration between the City's accounting system and the Fixed Asset management system. It also appears that no specific individual is fully responsible for fixed asset transactions during the year. This comment was also reported last year.

Recommendation

We recommend that the City evaluate its current fixed assets system and assign finance personnel to monitor the recording of fixed assets on a timely basis.

Management Response

The Finance Department is currently in the process of hiring a junior accountant to handle most aspects of fixed asset accounting. The position is expected to be filled and the employee trained prior to the next fiscal year audit.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

01-3. Physical Inventory of Fixed Assets

We noted that the City has not taken a physical inventory of its fixed assets in several years. The purpose of a fixed asset inventory would ensure that only active, in-service machinery and equipment is included in the City's financial statements and would also provide safeguards from loss or misuse of assets. In addition, the City should have a current physical inventory in light of GASB Statement No. 34, which is required to be implemented for fiscal year ended September 30, 2003, and which will require the City to depreciate all of its fixed assets, including general fixed assets, which are not depreciated under current accounting principles.

Recommendation

We recommend that the City perform a physical inventory of all fixed assets and maintain detailed records of these assets to ensure that the assets are properly stated.

Management Response

The City's budget for fiscal year 2001-02 includes reappropriated funds providing for the hiring of an outside firm to perform a valuation of the City's infrastructure that will provide assistance in compliance of GASB Statement No. 34. Additionally, this firm will also provide a physical inventory of the City's assets. Future budgets will provide for an annual inventory by an outside firm.

New Pronouncement

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. These new requirements were developed to make annual financial reports more comprehensive and easier to understand and use. The new reporting model will include government-wide financial statements, as well as fund financial statements, as well as a management's discussion and analysis section. Implementation will be required for fiscal year ending September 30, 2003. However, many of the reporting requirements need to be addressed several years before the required implementation date.

Recommendation

We recommend that the City review the new requirements and plan accordingly.

Management Response

Management is in the process of reviewing the new financial reporting requirements under GASB Statement No. 34. In addition, the Finance Department has requested in-house programming modifications to the existing financial management system to facilitate the new financial reporting requirements. Additionally, staff members from both Finance and Public Works have attended several seminars on this issue. During fiscal year 2002, the Finance Department's goal is to early implement the reporting requirements of GASB 34.

CITY OF NORTH MIAMI, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Non-Compliance

01-4 Earmarking

CFDA 14.218 Community Development Block Grant
U.S. Department of Housing and Urban Development

The U.S. Office of Management and Budget Circular A-133 Compliance Supplement for the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) requires the City to spend at least 70 percent of the funds appropriated by the end of the grant term. The grant term is a period of up to three years from the ending date of the grant program year. (The CDBG new Program Year is from October 1, 2000 to September 30, 2001). The City has been awarded CDBG appropriations (amount available to spend) of approximately \$3.2 million dating back to the 1998 program year. The City has spent approximately \$1.1 million since that date. The City has not spent any of the appropriations from its July 31, 2000 program year entitlement and approximately \$50,000 from its July 31, 1999 entitlement.

If the City does not comply with the spending requirements, they could be in jeopardy of losing their CDBG Entitlement. This comment was also reported last year.

Recommendation

We recommend the City monitor the CDBG grant and ensure that the funds are spent timely pursuant the grant agreement. The City should only list projects on the CDBG Action Plan that can be completed timely. The City has several projects listed on prior years Action Plans, which have not been started or have been partially expended and have been carried over from year to year. We recommend the City follow up on projects that have not started or that are not being completed timely. The City should consider obtaining approval to substitute new projects on its Action Plan to ensure the appropriated funds are expended on a timely basis.

Management Response

The City has taken steps to reduce its expenditure ratio by reprogramming funds from inactive projects to those scheduled to get underway immediately. Additionally, the City is ensuring that projects under construction are completed and closed out in as expeditious a manner as possible. The City expects to comply with HUD's expenditure ratio on or before July 31, 2002.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Other

01-5 Subrecipient Agreements

CFDA 14.218 Community Development Block Grant
U.S. Department of Housing and Urban Development

Based upon our review of the subrecipient agreements and from the monitoring review performed by HUD during March 2002, we noted that the subrecipient agreements included requirements that did not or should not have pertained to many of the subrecipients. Therefore, as it appeared, there was noncompliance by the subrecipients when in fact, the subrecipients should not have had to comply with certain audit requirements.

Recommendation

We recommend that the City revise their subrecipients agreements to clearly delineate the audit responsibilities required and applicable to each of the subrecipients.

Management Response

The City has modified its subrecipient's agreements to require audits in accordance with applicable Federal Law.